

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: Original
POSITION: Oppose

BILL NUMBER: SB 777
AUTHOR: L. Wolk
RELATED BILLS: AB 1382, SB 8

BILL SUMMARY: State Performance-Based Budgeting

This bill would require the Governor to use performance-based budgeting (PBB) methods for every state agency and court for which an appropriation has been made, beginning with the budget submitted to the Legislature for fiscal year 2011-12. This bill would create a task force comprised of the Director of Finance, the Controller, and the Chairperson of the Joint Legislative Budget Committee. The task force would develop PBB guidelines and procedures and develop a training and education program for state agency and court personnel involved in the process.

FISCAL SUMMARY

Estimated implementation cost of PBB methods at agencies statewide, based on costs for a prior pilot PBB program, is at least \$300 million. The state would also incur ongoing costs to support the PBB program of approximately \$90 million per year. These costs have not been appropriated. Any additional costs to the state for computer system modifications would depend on required scope and timeline.

COMMENTS

While the Department of Finance (Finance) is supportive of the concept of PBB, Finance cannot support this bill for the following reasons:

- **There are significant costs associated with this bill.** Because projections indicate a significant shortfall of resources in the current and future budget years, sufficient resources do not exist to fund the implementation of new budgeting practices requiring collection of substantial new data and cost information.
- **A PBB pilot was unsuccessful.** This is not a new proposal, as previous legislation has been sponsored related to zero-based budgeting (ZBB) and PBB. Chapter 641, Statutes of 1993, implemented a PBB pilot program. The Legislative Analyst's Office (LAO), in its *Analysis of the 1997-98 Budget Bill (Analysis)*, noted performance budgeting had not yet fulfilled its primary objective, which was to fundamentally change the state's budget process. The PBB pilot was not expanded statewide because it did not meet the initial expectations for the development of performance outcome measures and did not produce the anticipated savings.
- **The 2011-2012 implementation date is unrealistic.** If enacted, this bill would require virtually all agencies and courts to develop PBB performance measures and methods to link accounting data to performance measures in time for development of the 2011-2012 Governor's Budget. Requirements are extensive and the PBB pilot showed that these steps might take 2 to 5 years to implement in some agencies. This bill does not provide sufficient time between the enactment date and the implementation date.
- **This bill is too broad in scope and does not provide adequate direction.** This bill does not define responsibilities between a proposed new task force for PBB or address coordination with the

Analyst/Principal (0830) D. Botelho	Date	Program Budget Manager Diana Ducay	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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Financial Information System for California (FI\$Cal) system. Efforts of the proposed PBB system could be duplicative of the FI\$Cal system.

ANALYSIS**A. Programmatic Analysis**

It is important to consider options for budget reform. In an era of fiscal constraints, governments should fund programs that are effective and produce results. Coordination among existing or proposed systems should be considered.

Current Law, Section 15849.20 of the Government Code, et seq., specifies that the Department of Finance, the Controller, the Treasurer, and the Department of General Services shall develop and implement FI\$Cal. The FI\$Cal project is tasked with developing a single integrated financial management system including budgeting, accounting, procurement, financial reporting, and human resources management components.

There are several disadvantages to the use of PBB. Implementation of PBB results in a significant increase in data collection and the need for enhanced systems to process the data. Identification of useful performance measures within large amounts of data may be difficult. Performance results may be subject to interpretation with a lack of comparability between agencies. Administrative costs will increase from the addition of staff with high skill levels to collect, process, and interpret data.

There is not sufficient time to implement a performance-based budgeting system for each state agency as envisioned in this bill. Finance must complete the Governor's 2011-12 budget by December 2010. Performance measures would need to be identified and data collection would need to occur throughout 2009-10. Extensive training, development of effective program measures, and enhanced systems could not be completed in time to begin PBB by July 1, 2009; in order to have data metrics defined and collected during 2009-10 budget year for use in budgeting 2010-11.

B. Fiscal Analysis

There are currently 243 primary state agencies and courts, many with multiple budgetary units. Finance and each agency will incur significant ongoing costs to modify their budget processes. Cost is dependent on the size and complexity of each agency. The LAO Analysis noted approximately \$5 million of resources was invested by 4 relatively small pilot departments over several years.

Using costs incurred during the previous pilot program of \$1.25 million per agency, statewide implementation of PBB methods would cost at least \$300 million. This estimate has not been adjusted for inflation. The state would also incur ongoing costs to support the PBB program of approximately \$90 million per year. Actual costs would be lower at smaller agencies and higher at larger agencies. These costs have not been appropriated.

If this bill is implemented it could have an impact on the implementation of the FI\$Cal project. The state would incur higher costs if project scope is modified or timelines are changed.

These costs may be a combination of General Fund and Special Funds.

BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED)**Form DF-43****AUTHOR****AMENDMENT DATE****BILL NUMBER**

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Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							
	LA	(Dollars in Thousands)							
	CO	PROP							Fund
	RV	98	FC	2008-2009	FC	2009-2010	FC	2010-2011	Code
9901/Var Depts	SO	No	-----	See Fiscal Analysis	-----	-----	-----	-----	0001
8860/Finance	SO	No	-----	See Fiscal Analysis	-----	-----	-----	-----	0001
8880/Fiscal Info	SO	No	-----	See Fiscal Analysis	-----	-----	-----	-----	0001